Interim Condensed Consolidated Financial Statements of

BRITISH COLUMBIA FERRY SERVICES INC.

Three months ended June 30, 2017 and 2016

(unaudited)

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Condensed Consolidated Statements of Financial Position (unaudited)
(Expressed in thousands of Canadian dollars)

	As at	
	June 30, 2017	March 31, 2017
Assets		
Current assets		
Cash and cash equivalents	72,112	72,032
Restricted short-term investments (note 6(b))	32,776	32,426
Other short-term investments	115,582	115,582
Trade and other receivables	18,334	15,319
Prepaid expenses	19,792	7,454
Inventories	27,218	28,257
Derivative assets (note 8)	733	1,604
	286,547	272,674
Non-current assets		
Loan receivable	24,515	24,515
Land lease	30,115	30,230
Property, plant and equipment (note 3)	1,673,887	1,621,802
Intangible assets (note 4)	97,865	97,673
	1,826,382	1,774,220
Total assets	2,112,929	2,046,894
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	49,351	55,173
Interest payable on long-term debt (note 5)	16,307	18,458
Deferred revenue	40,506	20,705
Derivative liabilities (note 8)	4,587	1,048
Current portion of long-term debt (note 5,6)	34,486	30,939
Current portion of accrued employee future benefits	1,400	1,400
Current portion of obligations under finance lease (note 5)	1,600	1,582
Provisions	57,550	55,711
	205,787	185,016
Non-current liabilities		
Accrued employee future benefits	20,173	20,913
Long-term debt (note 5,6)	1,307,778	1,273,860
Obligations under finance lease (note 5)	40,016	40,423
Other liabilities	5,250	5,250
	1,373,217	1,340,446
Total liabilities	1,579,004	1,525,462
Equity		
Share capital	75,478	75,478
Contributed surplus	25,000	25,000
Retained earnings	441,371	424,020
Total equity before reserves	541,849	524,498
Reserves (note 9(a))	(7,924)	(3,066)
Total equity including reserves	533,925	521,432
Total liabilities and equity	2,112,929	2,046,894

Commitments (note 3)

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Condensed Consolidated Statements of Comprehensive Income (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2017	2016
Revenue		
Vehicle and passenger fares	163,119	158,364
Ferry service fees	42,899	42,156
Net retail (note 10)	14,923	13,711
Federal-Provincial Subsidy Agreement	7,446	7,289
Fuel rebates (note 15)	(4,868)	(4,699)
Other income	2,370	2,378
Total revenue	225,889	219,199
Expenses (note 11)		
Operations	124,922	112,712
Maintenance	20,869	21,073
Administration	9,958	8,027
Depreciation and amortization	38,641	36,840
Total operating expenses	194,390	178,652
Operating profit	31,499	40,547
Net finance and other expenses		
Net finance expense (note 12)		
Finance income	1,063	1,035
Finance expenses	(15,169)	(14,412)
Net finance expense	(14,106)	(13,377)
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	(42)	(185)
Net finance and other expenses	(14,148)	(13,562)
Net earnings	17,351	26,985
Other comprehensive (loss) income (note 9(b))		
Items to be reclassified to net earnings	(5,716)	10,328
Total other comprehensive (loss) income	(5,716)	10,328
Total comprehensive income	11,635	37,313

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2017	2016
Cash flows from operating activities		
Net earnings	17,351	26,985
Items not affecting cash		
Net finance expense	14,106	13,377
Depreciation and amortization	38,641	36,840
Loss on disposal and revaluation of property, plant and equipment, intangible assets and inventory	42	185
Other non-cash changes to property, plant and equipment	593	(345)
Changes in		
Accrued employee future benefits	(740)	(93)
Derivative liabilities recognized in net earnings	(510)	(1)
Provisions	1,839	1,404
Long-term land lease	115	115
Accrued financing costs	322	316
Total non-cash items	54,408	51,798
Movements in operating working capital		
Trade and other receivables	(3,015)	(4,931)
Prepaid expenses	(12,338)	(8,526)
Inventories	1,039	(1,681)
Accounts payable and accrued liabilities	(5,822)	(7,130)
Deferred revenue	19,801	4,223
Change in non-cash working capital	(335)	(18,045)
Change attributable to capital asset acquisitions	7,261	(1,990)
Change in non-cash operating working capital	6,926	(20,035)
Cash generated from operating activities	78,685	58,748
Interest received	572	704
Interest paid	(18,569)	(18,316)
Net cash generated by operating activities	60,688	41,136

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Condensed Consolidated Statements of Cash Flows (unaudited)
(Expressed in thousands of Canadian dollars)

	Three months ended June 30	
	2017	2016
Cash flows from financing activities		
Proceeds from long-term debt	45,264	-
Repayment of long-term debt	(6,571)	(3,750)
Repayment of finance lease obligations	(389)	(372)
Deferred financing costs incurred	(1,470)	-
Net cash generated by (used in) financing activities	36,834	(4,122)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	23	63
Purchase of property, plant and equipment and intangible assets	(97,115)	(41,907)
Changes in debt service reserve	(350)	95
Net proceeds from short-term investments	-	3,715
Net cash used in investing activities	(97,442)	(38,034)
Net increase (decrease) in cash and cash equivalents	80	(1,020)
Cash and cash equivalents, beginning of period	72,032	79,113
Cash and cash equivalents, end of period	72,112	78,093

BRITISH COLUMBIA FERRY SERVICES INC.

Interim Condensed Consolidated Statements of Changes in Equity (unaudited)
(Expressed in thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Total equity before reserves	Reserves (note 9(a))	Total equity including reserves
Balance as at March 31, 2016	75,478	25,000	352,692	453,170	(24,223)	428,947
Net earnings	-	-	26,985	26,985	-	26,985
Other comprehensive income	-	-	-	-	10,328	10,328
Realized hedge losses recognized in fuel swaps	-	-	-	-	2,319	2,319
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	62	62
Balance as at June 30, 2016	75,478	25,000	379,677	480,155	(11,514)	468,641
Balance as at March 31, 2017	75,478	25,000	424,020	524,498	(3,066)	521,432
Net earnings	-	-	17,351	17,351	-	17,351
Other comprehensive loss	-	-	-	-	(5,716)	(5,716)
Realized hedge losses recognized in fuel swaps	-	-	-	-	796	796
Hedge losses on interest rate forward contract reclassified to net earnings	-	-	-	-	62	62
Balance as at June 30, 2017	75,478	25,000	441,371	541,849	(7,924)	533,925

British Columbia Ferry Services Inc. (the "Company") was incorporated under the *Company Act (British Columbia)* by way of conversion on April 2, 2003, and now validly exists under the *Business Corporations Act (British Columbia)*. The Company's primary business activity is the provision of coastal ferry services in British Columbia.

The Company is subject to the *Coastal Ferry Act* (the "Act") as amended, which came into force on April 1, 2003. Its common share is held by the B.C. Ferry Authority (the "Authority"), a corporation without share capital, and it is regulated by the British Columbia Ferries Commissioner (the "Commissioner") to ensure that rates are fair and reasonable and to monitor service levels.

The Company's business is seasonal in nature, with the highest activity in the summer (second quarter) and the lowest activity in the winter (fourth quarter), due to the high number of leisure travellers and their preference for travel during the summer months. The Company also takes advantage of the low activity during the winter months to perform a significant portion of the required annual maintenance on vessels and terminals.

1. Accounting policies:

These interim condensed financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the year ended March 31, 2017, as they follow the same accounting policies, unless otherwise indicated.

(a) Basis of preparation:

British Columbia Ferry Services Inc. is a company domiciled in Canada. The address of the Company's registered office is Suite 500, 1321 Blanshard Street, Victoria, BC Canada, V8W 0B7. These interim condensed consolidated financial statements as at and for the three months ended June 30, 2017 and 2016 comprise the Company and its subsidiaries (together referred to as the "Group").

These interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations and comply with International Accounting Standard ("IAS") 34 *Interim Financial Reporting*.

These interim condensed consolidated financial statements were approved by the Board of Directors on August 17, 2017.

These interim condensed consolidated financial statements have been prepared using the historical cost method, except for land, land under finance lease, derivatives, and cash and cash equivalents, which are measured at fair value.

These interim condensed consolidated financial statements are presented in Canadian dollars ("CAD") which is the Group's functional currency. All tabular financial data is presented in thousands of Canadian dollars.

2. Adoption of new and amended standards and interpretations:

(a) Changes in accounting policies:

No new or amended standards or interpretations to existing standards were applied by the Group during the three months ended June 30, 2017.

(b) Future changes in accounting policies:

IFRS 15 *Revenue from Contracts with Customers*:

IFRS 15 *Revenue from Contracts with Customers* will replace IAS 11 *Construction Contracts* and IAS 18 *Revenue*. It provides a single, principles based five-step model to be applied to all contracts with customers. IFRS 15 also requires additional disclosures. The mandatory effective date of IFRS 15 is for annual reporting periods beginning on or after January 1, 2018. Earlier application is permitted. The Group is currently assessing the potential effects of adopting IFRS 15 on its consolidated financial statements and any related impact on its internal controls.

IFRS 9 *Financial Instruments (2014):*

On July 24, 2014, the IASB issued the completed version of IFRS 9 and the Group adopted IFRS 9 (2013) in fiscal 2015. IFRS 9 (2014) introduces a new expected credit loss model for calculating impairment, and incorporates the guidance on the classification and measurement of financial assets and the final general hedge accounting requirements originally published in IFRS 9 (2013). The mandatory effective date of IFRS 9 (2014) is for annual reporting periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. The Group has determined the need to establish an expected credit loss provision for trade receivables. The Group does not expect the application of IFRS 9 (2014) to have a significant impact on its consolidated financial statements, other than additional disclosure, as the Group has an existing provision for impairment.

2. Adoption of new and amended standards and interpretations (continued):

(b) Future changes in accounting policies (continued):

IFRS 16 *Leases*:

On January 13, 2016, the IASB issued IFRS 16 *Leases,* which will replace IAS 17 *Leases*. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard is effective for annual reporting periods beginning on or after January 1, 2019. Early adoption is permitted if IFRS 15 *Revenue from Contracts with Customers,* has also been applied. The Group is in the process of reviewing lease agreements. The Group expects that IFRS 16 will result in:

- an increase in assets and liabilities with the recognition of right of use assets and additional lease liabilities,
- a decrease in lease expense and an increase in amortization and accretion expenses, and
- an increase in cash flow generated by operating activities as these lease payments will be recorded as financing outflows in the consolidated statements of cash flows.

The Group is currently analyzing the potential effects of adopting IFRS 16. The Group does not expect the application of this standard to have a significant impact on its consolidated financial statements.

(Tabular amounts expressed in thousands of Canadian dollars)

3 Property, plant and equipment:

Continuity of property, plant and equipment:

	Vessels	Berths, buildings & equipment under finance lease	Berths, buildings & equipment	Land under finance lease	Land	Construction in progress	Total
Cost:							
Balance at March 31, 2017	1,305,845	642,436	104,332	6,824	18,433	212,467	2,290,337
Additions	-	-	-	-	-	87,286	87,286
Disposals	(4,090)	(794)	(353)	-	-	(10)	(5,247)
Transfers from construction in progress	135,040	21,056	820	-	-	(156,916)	-
Balance at June 30, 2017	**1,436,795**	**662,698**	**104,799**	**6,824**	**18,433**	**142,827**	**2,372,376**
Accumulated depreciation:							
Balance at March 31, 2017	467,454	149,958	51,123	-	-	-	668,535
Depreciation for the period	25,298	7,383	2,495	-	-	-	35,176
Disposals	(4,090)	(794)	(338)	-	-	-	(5,222)
Balance at June 30, 2017	**488,662**	**156,547**	**53,280**	-	-	-	**698,489**
Net carrying value:							
As at March 31, 2017	**838,391**	**492,478**	**53,209**	**6,824**	**18,433**	**212,467**	**1,621,802**
As at June 30, 2017	**948,133**	**506,151**	**51,519**	**6,824**	**18,433**	**142,827**	**1,673,887**

3. Property, plant and equipment (continued):

During the three months ended June 30, 2017, financing costs capitalized during construction amounted to $1.4 million (June 30, 2016: $1.0 million) with an average capitalization rate of 5.01% (June 30, 2016: 5.03%). In addition to the construction in progress referenced above, the contractual commitments as at June 30, 2017, for assets to be constructed totalled $193.2 million (March 31, 2017: $186.7 million). These contractual commitments include $103.6 million (March 31, 2017: $103.7 million) of the total contract value of $140 million for the mid-life upgrade and conversion to dual fuel of the two Spirit class vessels.

During the three months ended June 30, 2017, the Group received $0.4 million (June 30, 2016: $0.3 million) of rental income earned from buildings held for leasing purposes. These buildings have a cost and accumulated depreciation of $11.9 million and $2.8 million, respectively, as at June 30, 2017.

During the three months ended June 30, 2017, the *Queen of Burnaby was* decommissioned. The *Queen of Burnaby* and the *Queen of Nanaimo* are classified as held for sale. Both vessels are fully depreciated and have no carrying value.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Intangible assets:

Continuity of intangible assets:

	Acquired software, licenses & rights	Internally developed software & website	Assets under development	Total
Cost:				
Balance at March 31, 2017	103,249	13,324	24,646	141,219
Additions	-	-	3,698	3,698
Disposals	-	-	(41)	(41)
Transfers from assets under development	3,128	-	(3,128)	-
Balance at June 30, 2017	**106,377**	**13,324**	**25,175**	**144,876**
Accumulated amortization:				
Balance at March 31, 2017	31,895	11,651	-	43,546
Amortization for the period	3,366	99	-	3,465
Balance at June 30, 2017	**35,261**	**11,750**	-	**47,011**
Net carrying value:				
As at March 31, 2017	**71,354**	**1,673**	**24,646**	**97,673**
As at June 30, 2017	**71,116**	**1,574**	**25,175**	**97,865**

There was no impairment of intangible assets during the three months ended June 30, 2017 (June 30, 2016: $nil).

Capitalized financing costs during construction for intangible assets for the three months ended June 30, 2017 totalled $0.3 million (June 30, 2016: $0.9 million).

During the three months ended June 30, 2017, intangible assets totalling $2.1 million (June 30, 2016: $6.2 million) were acquired and $1.6 million (June 30, 2016: $0.7 million) were internally developed.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Liabilities arising from financing activities:

Continuity of liabilities arising from financing activities:

	Long-term debt	Obligations under finance lease	Interest payable on long-term debt
Balance at March 31, 2017			
Current	30,939	1,582	18,458
Non-current	1,273,860	40,423	-
	1,304,799	42,005	18,458
Additions	45,264	-	15,882
Payments	(6,571)	(389)	(18,033)
Additions to debt issue costs	(1,470)	-	-
Amortization of debt issue costs	242	-	-
Balance at June 30, 2017	1,342,264	41,616	16,307
Current	34,486	1,600	16,307
Non-current	1,307,778	40,016	-
Balance at June 30, 2017	1,342,264	41,616	16,307

(Tabular amounts expressed in thousands of Canadian dollars)

6. Loans:

	As at	
Long-term debt:	June 30, 2017	March 31, 2017
6.25% Senior Secured Bonds, Series 04-4, due October 2034 (effective interest rate of 6.41%)	250,000	250,000
5.02% Senior Secured Bonds, Series 07-1, due March 2037 (effective interest rate of 5.06%)	250,000	250,000
5.58% Senior Secured Bonds, Series 08-1, due January 2038 (effective interest rate of 5.62%)	200,000	200,000
4.70% Senior Secured Bonds, Series 13-1, due October 2043 (effective interest rate of 4.75%)	200,000	200,000
4.29% Senior Secured Bonds, Series 14-1, due April 2044 (effective interest rate of 4.45%)	200,000	200,000
12 Year Loan, maturing March 2020		
Tranche A (effective interest rate of 5.17%)	20,625	22,500
Tranche B (floating interest rate of 1.22% at June 30, 2017)	22,500	22,500
12 Year Loan, maturing June 2020		
Tranche A (effective interest rate of 5.18%)	22,500	24,375
Tranche B (floating interest rate of 1.26% at June 30, 2017)	22,500	22,500
2.95% Loan, maturing January 2021 (effective interest rate of 3.08%)	36,000	36,000
2.09 % Loan, maturing October 2028 (effective interest rate of 2.64%)	42,989	43,923
2.09 % Loan, maturing January 2029 (effective interest rate of 2.63%)	44,321	45,264
2.09 % Loan, maturing January 2029 (effective interest rate of 2.64%)	44,321	-
	1,355,756	1,317,062
Less: Unamortized deferred financing costs and bond discounts	(13,492)	(12,263)
Current portion	(34,486)	(30,939)
Total	**1,307,778**	**1,273,860**

6. Loans (continued):

(a) Credit facility:

The Group has a credit facility with a syndicate of Canadian banks, secured by pledged bonds. This revolving facility, in the amount of $155.0 million, was renewed on March 10, 2017 to extend the maturity date to April 20, 2022. There were no draws on this credit facility as at June 30, 2017 and as at March 31, 2017. There was no interest expensed during the three months ended June 30, 2017 and June 30, 2016. Letters of credit outstanding against this facility as at June 30, 2017 totalled $0.1 million (March 31, 2017: $0.1 million).

(b) Debt service reserves:

Long-term debt agreements require the Group to maintain debt service reserves equal to a minimum of six months of interest payments, to be increased under certain conditions. As at June 30, 2017, debt service reserves of $32.8 million (March 31, 2017: $32.4 million) were held in short-term investments and have been classified as restricted short-term investments on the statements of financial position.

(c) Debt service coverage:

Debt service coverage (earnings before interest, taxes, depreciation, amortization, and rent) is required to be at least 1.25 times the debt service cost under the credit facility agreement. As at June 30, 2017, the debt service coverage ratio was 3.01.

In addition, there are other covenants contained in the Master Trust Indenture ("MTI") (May 2004) available at www.SEDAR.com. The Group was in compliance with all of its covenants at June 30, 2017 and at March 31, 2017.

(d) 2.09% Loan, maturing January 2029:

The Group has a loan agreement with KfW, a German export credit bank. This loan agreement is secured under the MTI and allows for three loans of up to $45.3 million each.

Proceeds of $45.3 million from the third and final loan were received during the three months ended June 30, 2017, to coincide with the contract payment schedule for the *Salish Raven* and applied toward the purchase of the vessel. This amortizing loan will be repaid over a 12-year term and bears an interest rate of 2.09% per annum. Quarterly principal payments plus interest are due in January, April, July and October each year of the term of the loan.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Financial instruments:

The carrying values of the Group's financial instruments approximate fair value as at June 30, 2017 and March 31, 2017 for all financial instruments except for long-term debt.

	As at June 30, 2017		As at March 31, 2017	
	Carrying Value	Approx Fair Value	Carrying Value	Approx Fair Value
Long-term debt, including current portion [1]	1,342,264	1,679,663	1,304,799	1,597,761

[1] Classified in level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets.

Carrying value is measured at amortized cost using the effective interest rate method. Fair value is calculated by discounting the future cash flows of each debt issue at the estimated yield to maturity for the same or similar issues at the date of the statements of financial position, or by using available quoted market prices.

The following items shown in the consolidated statements of financial position as at June 30, 2017 and March 31, 2017 are carried at fair value on a recurring basis using level 1 or 2 inputs. There were no financial assets and liabilities at June 30, 2017 or at March 31, 2017, valued using level 3 inputs.

	As at June 30, 2017		As at March 31, 2017	
	Level 1	Level 2	Level 1	Level 2
Asset (liability):				
Cash [1]	62,644	-	66,093	-
Cash equivalents [1]	468	-	44	-
Derivatives [2]	-	(3,854)	-	556
	63,112	**(3,854)**	**66,137**	**556**

[1] Classified in level 1 as the measurement inputs are derived from observable, unadjusted quoted prices in active markets for identical assets.
[2] Classified in level 2 as the significant measurement inputs used in the valuation models are indirectly observable in active markets (derived from prices).

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates cannot be determined with precision as they are subjective in nature and involve uncertainties and matters of judgment. Where market prices are not available, fair values are estimated using discounted cash flow analysis.

No amounts have been reclassified into or out of fair value classifications in the three months ended June 30, 2017. Financial assets have been pledged as security for liabilities under the MTI.

During the three months ended June 30, 2017, gains or losses related to Level 2 derivatives have been recorded in OCI. There were no level 3 instruments outstanding during the period.

7. Financial instruments (continued):

The Group may use derivative instruments to hedge its exposure to fluctuations in fuel prices, interest rates and foreign currency exchange rates. The fair value of commodity derivatives reflects only the value of the commodity derivatives and not the offsetting change in value of the underlying future purchase of fuel. These fair values reflect the estimated amounts that the Group would receive or pay should the derivative contracts be terminated at the period end dates.

8. Financial risk management:

Fuel price risk:

The Group is exposed to risks associated with changes in the market price of marine diesel fuel and natural gas (“NG”) fuel. In order to reduce price volatility and add a fixed component to the inherent floating nature of fuel prices, the Group may manage its exposure by entering into hedging instruments with certain financial intermediaries. Fuel price hedging instruments are used to reduce fuel price risk and to minimize fuel surcharges, not for generating trading profits. Gains and losses resulting from fuel forward contracts are recognized as a component of fuel costs. Pursuant to the Group's Financial Risk Management Policy, the term of the contracts is not to extend beyond the greater of three years or the end of the fourth performance term ending March 31, 2020. This policy also limits hedging, to a maximum of 95% of anticipated monthly fuel consumption for the immediately following 12 month period; 90% of anticipated monthly fuel consumption for the 12 month period thereafter and 85% of anticipated monthly fuel consumption for the period thereafter to the end of the 36 month period.

The Group is also allowed by regulatory order to use deferred fuel cost accounts to mitigate the impact of changes in fuel price on its earnings (note 15).

During the three months ended June 30, 2017, the Group entered into ultra-low sulfur diesel (“ULSD”) fuel swap contracts with a notional value of $29.2 million CAD. To reduce its exposure to changes in the ULSD and foreign exchange risk components associated with forecast diesel fuel purchases, the Group hedges using CAD denominated ULSD swaps. The notional value of all fuel swap contracts outstanding as at June 30, 2017 was $85.3 million CAD (March 31, 2017: $66.7 million). Hedge accounting was applied to these contracts. No NG swap contracts were entered into during the three months ended June 30, 2017.

An economic relationship exists between the hedged item and the hedging instruments as the fair values of both the hedged item and the hedging instrument move in opposite directions in response to the same risk. The inclusion of credit risk in the fair value of the hedging instrument which is not replicated in the hedged item is a potential source of ineffectiveness, however, the Group does not consider this risk to be material.

During the three months ended June 30, 2017, the total change in the value of fuel swap contracts was $4.9 million. The fair value change of $5.7 million was recognized in OCI. The realized hedging loss of $0.8 million was reclassified from equity (accumulated other comprehensive income) and included in the Group’s fuel expense during the three months ended June 30, 2017. There was no hedge ineffectiveness during the three months ended June 30, 2017.

8. Financial risk management (continued):

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Total
Cash flow hedges				
Fuel price risk				
Fuel contracts (litres in thousands)	54,850	68,800	30,180	153,830
Contract price range ($/litre)	$0.4931 - $0.5975	$0.5247 - $0.5680	$0.5308 - $0.5599	

(a) As at June 30, 2017, the Group's derivative assets of $0.7 million included foreign exchange forward contracts and fuel swap contracts and derivative liabilities of $4.6 million included foreign exchange forward contracts and fuel swap contracts.

Fuel swap contracts as at June 30, 2017:

					Fair value changes used for calculating hedge ineffectiveness	
	Notional amount of the hedging instrument	Carrying amount of the hedging instrument	Item location	Cash flow hedge reserve	Hedging instruments	Hedged items
Cash flow hedges						
Fuel price risk	7,320	201	Derivative assets	201	201	202
Fuel price risk	77,976	(4,558)	Derivative liabilities	(4,558)	(4,558)	(4,572)

(b) Cash flow hedge reserve:

	Three months ended June 30	
	2017	2016
Hedging (losses) gains recognized in cash flow hedge reserve:		
Fuel swap contracts (note 9(a))	(5,716)	10,328
Hedging losses reclassified from cash flow hedge reserve:		
Interest rate forward contract – amortization of hedge loss	62	62
Fuel swap contracts – loss recognized in net earnings (note 9(a))	796	2,319
Net change in cash flow hedge reserve	4,858	12,709

(Tabular amounts expressed in thousands of Canadian dollars)

9. Other comprehensive (loss) income:

(a) Continuity of reserves:

	Land revaluation reserves	Employee future benefit revaluation reserves	Fuel swaps reserves	Interest rate forward contracts reserves	Total
Balance at March 31, 2017	**7,109**	**(4,026)**	**561**	**(6,710)**	**(3,066)**
Derivatives designated as cash flow hedges: (note 8(b))					
Net change in fair value	-	-	(5,716)	-	(5,716)
Realized losses (note 8(b))	-	-	796	-	796
Amortization of losses (note 8(b))	-	-	-	62	62
Balance at June 30, 2017	**7,109**	**(4,026)**	**(4,359)**	**(6,648)**	**(7,924)**

(b) Other comprehensive (loss) income:

	Three months ended June 30	
	2017	2016
Items to be reclassified to net earnings:		
Hedge (losses) gains on fuel swaps (note 8(b))	(5,716)	10,328
Total other comprehensive (loss) income	**(5,716)**	**10,328**

10. Net retail:

	Three months ended June 30	
	2017	2016
Retail revenue	24,481	22,737
Cost of goods sold	(9,558)	(9,026)
Net retail	**14,923**	**13,711**

(Tabular amounts expressed in thousands of Canadian dollars)

11. Operating expenses:

	Three months ended June 30	
	2017	2016
Salaries, Wages & Benefits	93,891	86,003
Fuel	25,361	23,583
Materials, Supplies & Contracted Services	20,517	18,363
Other operating expenses	15,980	13,863
Depreciation and amortization	38,641	36,840
Total operating expenses	**194,390**	**178,652**

12. Net finance expense:

	Three months ended June 30	
	2017	2016
Finance expenses:		
Long-term debt	15,893	15,564
Short-term debt	237	84
Finance leases	456	473
Amortization of deferred financing costs and bond discounts	303	160
Interest capitalized in the cost of qualifying assets	(1,720)	(1,869)
Total finance expenses	15,169	14,412
Finance income	(1,063)	(1,035)
Net finance expense	**14,106**	**13,377**

13. Accrued employee future benefits:

During the three months ended June 30, 2017, the Group recognized total defined benefit costs of $0.5 million (June 30, 2016: $0.4 million).

14. Related party transactions:

In accordance with the Act, the Group is responsible for paying any expenses that are incurred by the Authority, without charge. During the three months ended June 30, 2017, the Group paid $32,799 (June 30, 2016: $17,353) of such expenses.

The Province owns the Group’s 75,477 non-voting preferred shares, but has no voting interest in either the Group or the Authority.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Economic effect of rate regulation:

The Group is regulated by the Commissioner to ensure, among other things, that tariffs are fair and reasonable. Under the terms of the Act, the tariffs the Group charges its customers are subject to price caps. The Commissioner may, in extraordinary situations, allow increases in price caps over the set levels.

In January 2014 the IASB issued IFRS 14, *Regulatory Deferral Accounts*. IFRS 14 is an interim standard that addresses the accounting for regulatory deferral accounts; however, it does not allow the recognition of regulatory assets and regulatory liabilities that result from the regulated price cap setting process for entities that have already transitioned to IFRS. The Group transitioned to IFRS effective April 1, 2011. As a result, the Group is not permitted to recognize its regulatory assets and regulatory liabilities in its consolidated statements of financial position.

Regulatory assets generally represent incurred costs that have been deferred for purposes of rate regulation because they are probable of future recovery in tariffs or fuel surcharges. Regulatory liabilities represent obligations to customers which will be settled through future tariff reductions or fuel rebates. Management continually assesses whether the Group's regulatory assets are probable of future recovery by considering such factors as applicable regulatory changes. Management believes that the obligations represented by the regulatory assets at June 30, 2017, will be settled through future tariff reductions or fuel surcharges (rebates).

If the Group was permitted under IFRS to recognize the effects of rate regulation, the following regulatory assets would be shown on the consolidated statements of financial position:

	As at	
Regulatory accounts	June 30, 2017	March 31, 2017
Deferred fuel costs		
Balance – beginning of year	4.450	(6,132)
Fuel costs under set price	(2,597)	(7,625)
Rebates	4,868	18,068
Fuel price risk recoveries payable to the Province	89	139
Balance – end of period	6,810	4,450
Total long-term regulatory assets	**6,810**	**4,450**

The Act contains provisions which ensure that if tariffs charged by the Group exceed established price caps, the excess amounts collected will be returned to customers through future tariffs. At June 30, 2017, tariffs charged to customers were below established price caps.

(Tabular amounts expressed in thousands of Canadian dollars)

15. Economic effect of rate regulation (continued):

If the Group was permitted under IFRS to recognize the effects of rate regulation and to record regulatory assets and regulatory liabilities, net earnings for the three months ended June 30, 2017 would have been $2.4 million higher (June 30, 2016: $1.6 million higher) as detailed below:

	Three months ended June 30	
Effect of rate regulation on net earnings	2017	2016
Regulatory accounts:		
Deferred fuel costs	2,360	1,631
Total increase in net earnings	**2,360**	**1,631**